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to be occasion for further disagreement; but these are perhaps mostly incidental matters, apart from the main and central interest of the work — the history and criticism of classical cost theory.

That this explanation and criticism are admirable in their clarity, their sympathetic and yet searching analysis, their temper and their accuracy, should perhaps once more be said, in view of the ungracious seeming of a discussion sounding almost entirely in terms of dissent; but if the attempt were made to cover the material of agreement, any adequate account of the book would become impracticable. It is certainly true that no one who cares to go to the bottom of the value controversy can afford to overlook this work.

H. J. DAVENPORT.

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#### THE INDUSTRIAL CAPACITY OF THE GERMAN

The industrial progress of Germany during the last quarter of a century, particularly during the past ten years, has attracted universal attention. The English, especially, have been made acutely aware of the situation by the competition of this new commercial power, not only in foreign markets which they had long regarded complacently as their own, but even in the domestic market in branches where their supremacy had never before been assailed. The causes of this phenomenon are numerous, but perhaps the most interesting and important one is the character of the German people themselves. In this brief space, however, it will be possible to touch upon merely the most obvious and general characteristics of the German in his adaptation to modern capitalistic industry.

Capitalistic production requires the existence of two economic classes: (1) A class composed of persons having knowledge of the technique of production and of business management, with organizing and executive ability, together with the control of capital. Of course, these manifold abilities are rarely combined in one individual, but they are the necessary requisites of the class. (2) A class composed of persons dependent upon their labor for a livelihood, who for wages are willing to place their services at the disposal of the entrepreneur and become parts of the industrial organization. All the population of even the most capitalistic nations do not fall into one or the other of these classes, notwithstanding the statement of Karl Marx to the contrary, but in studying the industrial capacity of people we must confine our observation to those qualities which distinguish them as entrepreneurs or as wage laborers.

One of the features common to the Germanic races, and distinguishing them from the Latin and oriental peoples, is *physical vigor* and power of endurance. A severe climate has always compelled the German to make large provision of food and clothing, which could be acquired from the unfruitful soil only by the most strenuous toil. Centuries of struggle with nature for a livelihood, and with other nations in a land whose position in the center of Europe makes it the battle ground of the continent, have bred in the race a hardihood and endurance which are of great industrial advantage. The German takes life seriously; he has the ability and willingness to work long and hard for a bare subsistence.

The physical vigor of the German manifests itself also in the reproductive capacity of the race. Germany leads all the European nations in the rate of increase of population. The following table shows the average annual rate of increase of population during the past fifteen years:<sup>1</sup>

United States of America	United Kingdom .....	0.94 per cent.
1.89 per cent.	Spain .....	0.88 per cent.
German Empire .....	Italy .....	0.69 per cent.
European Russia .....	France .....	0.17 per cent.

This is the actual, and not the natural, increase; the percentage of the United States is raised and that of Germany lowered considerably, by the migration of large masses of population from Europe to America. Germany has 363 living births annually per 10,000 of population, against 226 in France. The meaning of this difference is clearer when its effects are projected through a century: in 1820 France had four million more people than Germany; now Germany has twenty millions more than France, and this notwithstanding the heavy drain from emigration in Germany, from which France has been practically free.

The importance of the fecundity of the German nation becomes more apparent when we trace out its effects on the industrial character of the people. Nations make progress, as a rule, only when forced to do so by compelling circumstances. The pressure of an increasing population on the resources of a land is one of the most compelling causes of industrial progress. To avoid starvation, a dense population must utilize every scrap of natural produce, and if, as is the case in Germany and Great Britain, the soil is not capable of yielding the necessary amount of food-stuffs even under the most

<sup>1</sup> *Statistisches Jahrbuch für das Deutsche Reich*, 1904, Appendix, p. 3.

intensive cultivation, the densely populated country is forced to manufacture and market wares in order to purchase abroad these fundamental necessities of life. In a country where the increase of population is slight, and where the average number of children in a family is two, the son may step into the place of the father and, without any initiative on his part, may occupy at least as comfortable a place in the world as his father did and continue to live in the manner to which he has grown accustomed. Thus it is with the peasant population of France. The parents, whose frugality is proverbial, endeavor to leave as large a property as possible to their children, and it is not surprising that the rising generation should be content to step into the places of their fathers, continuing to live in the same conservative way. There is no necessity for innovations involving risk, worry, and disappointment, and none for leaving agriculture to enter other industries. Therefore there is lacking in France the pressure of an increasing propertyless proletariat demanding industrial employment.

It is otherwise in Germany, where large families prevail. Each child can hope to inherit but a portion of the paternal estate, and, unless he is able to acquire property by his own efforts, he must inevitably fall into a lower social class than that into which he was born. In a country of rigid social classes, such as Germany, this economic and social degradation is resisted strenuously. So it comes about that the father, instead of striving to leave large inheritances to his children, directs his efforts to equipping them as well as he can by education and training for their future careers. In the districts where small peasant holdings prevail, which are too small to divide, one son usually succeeds the father and mortgages the estate to satisfy the claims of his co-heirs. In this practice we see one of the reasons why the soil of Germany is mortgaged for over three-fourths of its value. The other sons seek places in the cities and manufacturing centers, and recruit the army of wage-laborers. Here we have present one of the requirements of capitalistic production—an increasing propertyless class clamoring for employment.

The size of families in the upper classes also has its effect on industrial progress. Among the children of these classes we find the struggle to retain a place in the social class into which they were born even more intense than in the lower classes. The father, unable to bequeath a large property to each of his numerous sons, is the more concerned to provide for them the best possible education—an

education which shall be of economic advantage. The young men of this class, possessed perhaps of a small capital, which is, however, not sufficient to maintain them in their class, educated and trained, enter industry and commerce ambitious to become entrepreneurs. They are watching for every opportunity to advance themselves or to engage in independent undertakings. In our country we know nothing of the earnestness with which these young Germans struggle to hold their own in their social class. Discharge from a position under circumstances which make difficult re-employment in the same branch is equivalent to defeat. If a young clerk loses his position in a business for which he has undergone a long training, and is unable to find immediate employment, he has no recourse to temporary employment in unskilled manual labor. The unemployed clerk would rather starve than accept a job shoveling snow and thereby lose his claim to a place in his economic class; no employer would engage a man as clerk who had been, even temporarily, an *Arbeiter*. In time of crisis the distress of this "élite proletariat" is even more acute than that of the protégé of the soup kitchens.

In a country such as France where, in the average case, the son inherits the whole of the estate of the father, together with his social position, this class of young men, eagerly watching their chance to become entrepreneurs, and accepting every opportunity for education and training in the industry which they have chosen, will be lacking. The condition of affairs in that country in this respect is suggested by a remark of Madame de Girardin: "Chacun en France méprise son métier; on a toujours mieux à faire que son devoir."<sup>2</sup> The German, on the other hand, does not feel above his business, but is under the strongest incentives to master it and advance himself in it.

Thus the increasing population of Germany recruits the economic classes which are necessary for the development of capitalistic industry. The entrepreneur class is constantly receiving accessions of the most enterprising and best-trained young men of the nation; the laboring class is ever increasing its numbers, and there is always at hand an army willing to work long hours for a scanty wage. At the same time, this growing population is increasing the number of customers for home industries, and for foreign food-stuffs which must be paid for by exports of the products of home industries. An ever-widening home market enables the industries to produce

<sup>2</sup> Quoted by M. Georg Blondel, *l'Essor industriel et commercial du peuple allemand*. (Paris: Larose et Cie, 1898.)

on a larger scale and, consequently in most industries, more cheaply, thereby giving them greater competitive power in disposing of German wares in foreign markets. Nor is that portion of the increased population which has been forced to emigrate to less densely settled countries altogether lost to German industries. The German emigrant in his new home retains his preferences for German articles, and his demand, together with the influence of his example on his neighbors, goes far to swell the exports of the mother country.

The reproductive vigor of the German, manifesting itself in the pressure of population on the means of subsistence, which forces the people to develop industry and commerce as a measure of self-preservation, is therefore, an important fundamental cause of the industrial progress of the German nation.

The German state is the most paternal of all civilized governments. The Manchester free-trade, *laissez-faire* ideas, which attained a certain vogue in the middle of the last century, never took deep root in the German mind, and with the establishment of a strong, unified imperial government the German easily fell back into the habit of expecting the state to do things for him. He is essentially law-abiding by nature and delights in being governed. He has little of that sense of personal liberty which distinguishes the Anglo-Saxon. That a thing is *verboten* is sufficient for him; he never inquires whether there is any particular reason for the prohibition, even when it interferes with his comfort. He is trained to live by rule, and his education consists of learning facts and rules rather than of acquiring reasoning power. The distinction between the Anglo-Saxon and the German educational methods may be expressed in this wise: the German student is taught *what* to think, and the Anglo-Saxon *how* to think.

This national trait of obedience to law is fostered by the military system. Practically every male German must pass through the army; most of the young men must spend two years in the barracks in a part of the empire distant from their homes, under the absolute authority of the officers. The German army officers form a distinct, privileged social caste, living under its own special code of laws and amenable only to its own special courts. The common soldier has no appeal against his superior, nor may he defend himself, even when off duty, against a violent and brutal attack of the latter. For two years, therefore, the young German is trained in the habit

of unquestioning obedience to authority, and his personality is merged in the organization. These traits, acquired in the barracks, are taken into industry when his term of service has expired.

As modern capitalism develops, it assumes more and more the aspect of a great system in which the individuality of men is sacrificed. The operation of a large industrial plant approximates more and more to the routine of an army; with the perfection of machinery, the labor of the workman comes to resemble the drill of the soldier, monotonous and mechanical. Patient toil, endurance, and obedience are the qualities fostered in the army and utilized in industry. The capitalist could scarcely ask for a better training-school for his wage-laborers. The army is also one of the causes of the migration of the people from the land to the cities—from agriculture to industry. It is a rule of the authorities to station the recruits in barracks far from their homes, the peasants in the cities and the urban recruits in the country. In his period of service the young peasant sees enough of the city and its attractions to become discontented with the slow life of the country, and he is likely to seize the first opportunity to join the army of wage-earners in the cities. These considerations make it clear that the army, burdensome as it is to the country as a whole, must be regarded distinctly as favorable to industrial progress.

Those German youths who have completed six years of the *Gymnasium* course, and have passed a state examination corresponding somewhat to our college-entrance examinations, are required to serve but one year in the army and under more favorable conditions they may choose the regiment in which they are to serve, and may continue to live at home if that is possible. To be sure, they are volunteers (*Freiwilligen*) and do not receive the pay of the two-year soldier—twenty-four pfennigs (six cents) per day. To become an *Einjähriger* is the ambition of the young German and a powerful incentive to education. The possession of the one-year-service certificates raises its holder into a higher social class.

Nature and training, therefore, fit the German to become a part of an organization, whether it be the state or a great industrial concern. Personal liberty, independence, and initiative are repressed, and obedience, patience, and thorough training for his position are fostered. The sense of personal liberty is subordinate to a strong sense of duty narrowly conceived. Professor Sombart<sup>3</sup> cites this as

<sup>3</sup> *Die deutsche Volkswirtschaft im neunehnten Jahrhundert*, p. 122. Berlin: Georg Bondi, 1903.)

one of the great distinctions between the Germanic and Latin races; the former have a strongly developed *ethical*, and the latter a strongly developed *ästhetical*, sense. It is this sense of duty, this *Pflichtgefühl*, that makes the German a patriotic, law-abiding citizen and an incorruptible officer. Perhaps this is why Berlin is one of the cleanest and best-administered cities of the world, while Chicago is among the worst. While the sins of the army are numerous, and many of its rules and practices, particularly the officers' code of honor, would not be tolerated for a moment in the United States, yet the integrity of the officers is never questioned and an "embalmed-beef" scandal would be impossible there.

And so it is in the civil administration, and even in the private industrial management which, as industrial progress develops partnerships into stock companies, and stock companies into syndicates and trusts, assume more and more a public character. As the German is well qualified to fill his place as a small wheel in a great machine of the state, so he is equally well qualified to occupy a similar position in a great industrial organization, whether it be as officer or private. In the earlier formative stages of capitalistic industry, the individual initiative of the Anglo-Saxon made him the industrial superior of the German; but should the present-day tendencies prove to be the permanent ones and the syndicate the normal industrial unit, then this capacity of the German for "team work," this power to efface himself in the interests of the group, will yield many advantages to German industry.

While it may be conceded that the German is by nature and training admirably well adapted to the modern capitalistic method of production, in so far as his temperament fits him for the subordinate positions in which faithfulness, honesty, and patience are required, yet it remains to be explained how he has been able to develop these great organized industries in a few short years. Whence has come the initiative to establish these industries and to adapt them to the changing needs of the times?

First of all, modern industry is based on technical scientific knowledge. The forerunners of our "captains of industry" were the natural-science philosophers who, with no thought of utilitarian application of the results of their studies, created the sciences of physics and chemistry. After these came men, working usually alone, who at intervals worked out, or accidentally stumbled upon, a principle out of which came a great revolutionizing invention. This

unsystematic method, resting on personal initiative, still prevails largely in our own country. In Germany, on the other hand, this work is organized, and the inventors are men who are first trained in the excellent technical schools and later employed in the laboratories of the industrial concerns. The initiative, therefore, to technical progress comes not from the individual so much as from the organization, either from the state authorities in maintaining the schools, or from the private industrial managers in employing the scientist and furnishing him a laboratory; the inventor himself is part of the system. The Edison type of inventor, working independently on his own initiative, is not common in Germany.

The function of the modern entrepreneur is to organize materials already at hand into a harmonious and systematic whole, and to administer the organization. This he does by controlling capital. The successful and clever management of capital we call financial skill. Personal initiative, however, is a large element in financial skill, and this is the quality which we find deficient in the German. Nevertheless, there exists in Germany an abundance of financial skill, not the possession of the German race, but of an alien race that in commerce and finance is in Germany as large or larger than, in the United States, and much larger than in Great Britain. One hundred and eleven in every ten thousand of the German population are Jews; while in England there are but twenty; in France fourteen, and in Sweden seven in ten thousand.<sup>4</sup> In Germany 5,205 Jews in every 10,000 are engaged in trade and commerce, against 450 Christians; 2,119 in manufacturing (of whom 885 are manufacturing and cleaning clothing); and 106 in 10,000 are in agriculture, against 3,665 Christians. The Jew is the commercial leaven of the German nation. To his financial abilities is largely due the development of those industrial organizations to which the Christian German adapts himself so well.

Banking has always been the commercial branch in which the Jew excelled. "Promoting," taking the word in its broadest sense, is done in Germany by and through the banks, a large portion of whose business consists in marketing stocks. Therefore, it is in the banks that we may locate the initiative which has developed German industry to what it is today, and within the banks we may trace it still farther to the natural traits and acquired abilities of the Jewish banker. An evidence of the part which the Jew has had in the

<sup>4</sup> *Op. cit.*, p. 134.

development of capitalism is furnished by the Antisemitic feeling which is current among so large a class in Germany. On examination, this feeling may be found to have originated and to exist most strongly in those classes which have suffered most from the transition from the handicraft to the capitalistic factory system of production. Having little understanding of the real source of their injuries, capitalism, they vent their wrath on those who represent that system, the Jews.

We find, therefore, that the German is well qualified for industrial success and is especially well adapted to a highly organized capitalistic system. For all the subordinate positions in a great industry, from the scientist in the laboratory and the head of a department, down to the common unskilled laborer, he is admirably fitted by nature and training. He lacks initiative, but the development of capitalism makes this characteristic less and less indispensable among the mass of people, while it requires rather those qualities in which the German excels. The lack of initiative is supplied by the Jew, and thus we have present in the German Empire all those elements which tend to make the people of a nation industrially efficient.

EARL DEAN HOWARD.

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#### CREDIT AND PRICES

At its last meeting (1904) the American Economic Association gave up one session to a discussion of the relation between credit and prices. The point of the discussion was, in substance, the question: Does the use of credit raise general prices? This was the only strictly theoretical topic taken up at the meeting. It is perhaps needless to say that the question was not finally disposed of, even in the apprehension of those who took part in its discussion. There was apparent a general reluctance to admit that credit is a price-making factor of considerable importance, at the same time that there seemed to prevail an apprehensive hesitancy about saying so in so many words. This is true only with exceptions, however. On the whole, there may be said to have been a rough consensus to the effect that credit does not have much to do with prices in ordinary times and in the general run of business, however opinions may differ as to its effect on prices in exceptional circumstances. It should be added that the discussion at the meeting was directed mainly, or almost wholly, to those forms